



**Technology Committee Meeting**

Wednesday, August 17, 2005

2:30 p.m.

Lankford Ballroom - Longwood University  
Farmville, Virginia

**APPEARANCES:**

The Honorable Clarke N. Hogan, Chairman  
Mr. James C. Thompson, Vice Chairman - Southwest  
The Honorable Kathy J. Byron, Vice Chairman - Southside  
Mr. Thomas W. Arthur  
Mr. L. Jackson Hite  
Mr. Claude B. Owen, Jr.  
The Honorable Edward Owens  
The Honorable William C. Wampler, Jr.  
The Honorable Thomas C. Wright, Jr.

**COMMISSION STAFF:**

Mr. Carthan F. Currin, III, Executive Director  
Mr. Ned Stephenson, Manager of Strategic Investments  
Mr. Timothy Pfohl, Grants Program Administration Manager  
Ms. Britt Nelson - Grants Coordinator, Southside Virginia  
Ms. Sarah Griffith - Grants Coordinator, Southwest Virginia  
Ms. Stephanie Wass, Director of Finance

**OFFICE OF THE ATTORNEY GENERAL**

Mr. Frank N. Ferguson, Deputy Attorney General, Counsel for the  
Commission  
Ms. Stephanie Hamlett, Special Counsel to the Attorney General  
Ms. Anne Marie Cushmac, Assistant Attorney General, Counsel for the  
Commission

DELEGATE HOGAN: All right, I'll call the meeting to  
order.

Carthan, would you call the roll?

CRANE-SNEAD & ASSOCIATES, INC.  
4914 Fitzhugh Avenue, Suite 203  
Richmond, Virginia 23230  
Tel. No. (804) 355-4335

1 MR. CURRIN: Mr. Arthur?  
2 MR. ARTHUR: Here.  
3 MR. CURRIN: Mr. Hite?  
4 MR. HITE: Here.  
5 MR. CURRIN: Mr. Owen?  
6 MR. OWEN: Here.  
7 MR. CURRIN: Mr. Owens?  
8 MR. OWENS: Here.  
9 MR. CURRIN: Senator Wampler?  
10 SENATOR WAMPLER: Here.  
11 MR. CURRIN: Delegate Wright?  
12 DELEGATE WRIGHT: Here.  
13 MR. CURRIN: Delegate Byron?  
14 DELEGATE BYRON: Here.  
15 MR. CURRIN: Mr. Thompson?  
16 MR. THOMPSON: Here.  
17 MR. CURRIN: Mr. Chairman?  
18 DELEGATE HOGAN: Here.

19 The first item will be to approve the Minutes of the last meeting. It's been  
20 moved and seconded. All in favor say aye? (Ayes.) It's been approved.

21 I hope we can approach it this way, we've got a lot to do and not much  
22 time to do it in. What I'm going to suggest is that we have a bunch of proposals to work  
23 through in Southwest Virginia. I think probably we should take up the Southwest piece,  
24 and maybe sometime in the next two or three weeks or sooner, we can take up the  
25 Southside proposals. Maybe the membership of this Committee from Southside can meet  
26 and sort through all of that, and I don't think we can do it today.

27 DELEGATE WRIGHT: There may be one section,  
28 Number 14.

29 DELEGATE HOGAN: You're right, with the exception of  
30 that, affecting both Southside and Southwest.

31 DELEGATE WRIGHT: There are two actually, one refers  
32 also to 14, which is the Workforce Training Center and Last Mile.

33 DELEGATE HOGAN: The joint one I'd like to take up  
34 today, and we'll talk about Number 14, if we need to. I know there is a lot to deal with  
35 this kind of issue in Southside, but instead of doing it piecemeal, I'd rather take it up at  
36 one time. Maybe we can take it up in about three weeks.

37 DELEGATE WRIGHT: Well, the people are here, and I'm  
38 sure they would like to address it, I think, as long as they came here, and maybe there are  
39 questions by the Staff.

40 DELEGATE HOGAN: We can hear from them. We could  
41 take it up today, but I think we need to listen to Southwest today, and then maybe we can  
42 get to 15.

43 MR. OWEN: Are you suggesting, Mr. Chairman, that there  
44 is a separate pot available for Southwest and Southside and we don't make have to make

1 any choice as to how the Technology budget, that we will have a certain amount that we'll  
2 spend in each place, therefore we'll deal with it separately without making an allocation?

3 DELEGATE HOGAN: Between Southside and Southwest.  
4 I think that's the case. I think when we set aside the 40 million dollars last time, we set it  
5 up to split in half. I think Southwest started out with, I think they started out with 30 or  
6 35 or 40 million dollars, and I think it was paired down to something around 20. The  
7 project as it affects the Southside project, all sorts of things out here, some I've had a  
8 chance to look at and some which maybe nobody has seen, and I think those issues, as far  
9 as how we go about it, we can do it anyway you want to. I don't know how to consider  
10 the John Tyler Community College Project and not consider the other pieces of the MBC  
11 Project in its entirety. That's just an opinion.

12 DELEGATE WRIGHT: Mr. Chairman, this is on the  
13 agenda today and supposed to be considered today at this time, and they've done  
14 considerable work on it.

15 DELEGATE HOGAN: We'll look forward to hearing from  
16 the folks that are here. If we need more information we'll take it up at a later time. I  
17 think we could hear from Mr. Deriso, maybe that would make more sense at this point.

18 DELEGATE WRIGHT: The only reason is that this  
19 proposal today, if we hear about it, it will allow them to go forward with their planning,  
20 and it makes it much easier as far as things they had in mind to do further down the road.

21 DELEGATE HOGAN: Well, then, we can hear from them.  
22 With those exceptions, Mr. Owen and Mr. Wright, it seems to me maybe we'd ask Kelly.  
23 I don't know if you want to run through this, William, if you could run through where you  
24 are and how you are going to work out these problems.

25 SENATOR WAMPLER: Mr. Chairman, the Vice Chair of  
26 the Commission perhaps can give us an overview of the various efforts trying to get the  
27 budget numbers agreed upon that have been proposed, and maybe we could proceed with  
28 that.

29 DELEGATE HOGAN: Ned.

30 MR. STEPHENSON: Mr. Chairman, we're prepared to do  
31 that, but before we do it, at the June Commission meeting, the Chairman asked for an  
32 independent professional evaluation of all these grants and we have done that, and we  
33 have that person here today to make that report to you.

34 DELEGATE HOGAN: I know the conclusions of that  
35 report have been given to everyone on the Committee several weeks ago. I don't know  
36 that we need it read to us at this point. I assume everyone has read it and has relied on it.  
37 I would just say if you have questions about it, we can ask them, or anyone can ask him.  
38 I don't see where we need to spend time rereading the report that we have had for almost  
39 two or three weeks.

40 MR. HITE: Mr. Chairman, I'd like to hear from these  
41 people. Reading the presentation that was given to us is one thing, but I'd like to see it.

42 DELEGATE HOGAN: Well, if you read the report, and I  
43 assume you have, we can focus on the piece that you have questions about and try to

1 address those questions specifically. I don't want him to stand up here and reread the  
2 report that we have had for two or three weeks; that seems to be a waste of time.

3 MR. HITE: It's on the agenda, Mr. Chairman.

4 DELEGATE HOGAN: Might I ask, Mr. Hite, that you ask  
5 the question that you have in relationship to the report. What is your question?

6 MR. HITE: I'd have a better question if I could see the  
7 report.

8 DELEGATE HOGAN: Are you suggesting you haven't  
9 seen the report yet? I think it was sent to every member of the Committee several weeks  
10 ago. It's about 40 or 50 pages.

11 MR. HITE: I'd like an explanation about the Last Mile and  
12 the Drop Service and --

13 MR. OWEN: -- I have a question.

14 DELEGATE HOGAN: Mr. Pesce, can you come up here  
15 and address that?

16 MR. PESCE: My name is Nick Pesce, and I am a Senior  
17 Consultant for Syntrex, LLC. I was contacted by the Tobacco Commission to do an  
18 independent and objective review of the grant requests for Technology.

19 DELEGATE HOGAN: Would you run through, the  
20 Southwest folks made a request, and you analyzed all of them, and you made  
21 recommendations on several criteria and seen them, and you responded to that. I hate to  
22 spend time analyzing their requests at this point. That's the reason I suggested maybe as  
23 an alternative to have you, have you seen the most recent round of requests?

24 MR. PESCE: Yes, sir.

25 DELEGATE HOGAN: Would it be appropriate for a  
26 person from Southwest to present those concepts and then maybe talk about it, versus  
27 talking about the whole report? I think what Mr. Hite has pointed out has been addressed.

28 MR. HITE: For the last mile concept in the request from  
29 Southwest.

30 MR. OWENS: Mr. Chairman, the majority of this is a  
31 summary, I think maybe the others got a full report.

32 DELEGATE HOGAN: I think the full report was e-mailed  
33 to every member of the Committee two or three weeks ago. I assume everybody got a  
34 copy. Is that right?

35 MR. STEPHENSON: That is correct.

36 DELEGATE HOGAN: Are there a number of you that  
37 have not looked at the report? Is there anyone here that has not had a chance to review  
38 the report?

39 MR. OWEN: I've only seen seven pages. I opened the e-  
40 mail, and that's all I got, and I printed everything on it. I do have a question, though. In  
41 your summary you mentioned an estimate of 46 million for the last mile activity in  
42 Southwest. Do you have an estimate of the cost of last mile connectivity for Southside?

43 MR. PESCE: Yes.

44 MR. OWEN: How much is that?

1 MR. PESCE: Based on the formula that is used for  
2 Southwest, the same formula Southside would be 30 million.

3 MR. HITE: Getting back to the last mile, have you  
4 addressed the last mile drop, has that been considered by you, or have you presented that  
5 as an option?

6 MR. PESCE: I'm sorry, I didn't hear you.

7 MR. HITE: The last mile drop, have you considered the  
8 wireless mode, cable?

9 MR. PESCE: Did everyone hear the question? The  
10 question is, the last mile, did Syntrex consider wireless? The answer is yes and no. The  
11 no part is that based on what we could see all companies in Southwest are going for a  
12 triple header, and that means they're going to deliver telephone, cable and Internet  
13 services. On the wireless technology that exists today it does not seem practical to go  
14 with optical at this time.

15 The long-term solution with technology as we know it today and what has  
16 been an introduction would be fiber to the home. Since they are going with the triple-  
17 header, the experts are saying today you need about ten megs to the home, in five years  
18 probably another hundred. I don't think for that business, that type of service delivery,  
19 wireless is the way to go.

20 MR. HITE: Another thing you had in your report, these  
21 grant requests that are asked to be funded, can they be used as a group or isolated?

22 MR. PESCE: Are you talking about the backbone  
23 network?

24 MR. HITE: Yes.

25 MR. PESCE: Can we put up the slides, Mr. Chairman?

26 DELEGATE HOGAN: Yes.

27 MR. PESCE: Is this the one you're speaking to? Can  
28 everyone hear?

29 The difference is, if you remember, Virginia Tech had the geodesic mesh,  
30 but because of all the funding aspects that wasn't possible at this point, but maybe  
31 sometime in the future. So what Southwest is doing is putting a network in between their  
32 point of presence for the telephone company central office. Each main point has two  
33 routes out of it. So, in essence, they have diversity, which is what this is trying to do, and  
34 it has eight-fold diversity.

35 The question you're bringing up is each of these global carriers have their  
36 own backup, but if something happens to one they are not connected to the other to carry  
37 that traffic, which would be very valuable. So what we have is local backbone instead of  
38 regional backbone.

39 The next slide shows a black ring in here for the region. What each  
40 company could do if they worked together is develop a connection between all of them so  
41 if there is a major problem in one of them that traffic could be re-routed to get out  
42 through another carrier. I think that's what you're getting at.

43 The other thing is that they all have two points out of the network to a  
44 national or global carrier. If they get this ring in and connected, which is the logical

1 connection, it's not physical, they would eliminate one for each of them and put in a big  
2 pipe for each of them and save a lot of money. It's just like when you go to Kroger down  
3 here and buy a case of Coke, you get a unit price of 50 cents. That is what will happen  
4 here. There is a lot of opportunity and synergy if the companies work together.

5 MR. HITE: What do you recommend this Committee do to  
6 make that happen?

7 MR. PESCE: I'm not the person who should be answering  
8 that question. There is an individual here, if I may ask him to  
9 come forward, is that all right, Mr. Chairman?

10 DELEGATE HOGAN: Sure.

11 MR. PESCE: Mr. Kelly, can you address that question?

12 MR. KELLY: What was the question?

13 MR. PESCE: The question is what would have to be done  
14 to make this occur like it shows here? You work together and develop a logical regional  
15 backbone to support all of this.

16 MR. KELLY: There are a number of things we can do, but  
17 basically you need some sort of consortium, utilizing Scott County Telephone and BVU,  
18 Lenowisco, Cumberland Plateau. BVU is the operator of the Cumberland Plateau, but as  
19 a consortium, which we have talked about doing, there would be some incentive to not  
20 just getting a large pipe to share, or multiple lines, but a multiple pipe to share for  
21 materials, labor, and economies of scale. But I think maybe be very aggressive with it, I  
22 think that's the best answer I can give you now.

23 MR. PESCE: There are a lot of opportunities for synergy,  
24 if you can do some consolidation, and that would save a lot of money. The backbones we  
25 found to be sound, I'm sorry, the operation we found to be sound, but there are three of  
26 them. There are three headers for cable. There are opportunities to consolidate and  
27 reduce costs, not only in the capital section but in operation. I think that's important if  
28 you want to compete with the rest of the United States.

29 SENATOR WAMPLER: Mr. Chairman, I'd like to ask a  
30 question. I think Mr. Owen asked a question of what would it take to do similar  
31 deployment in Southside in terms of last mile application, if I understood the question  
32 correctly, whether it's 40 million or 30 million or something in between. I'd be interested  
33 in what your answer is as to what you study when you look at what Bristol Virginia  
34 Utilities and what Scott County Telephone Cooperative can put in the game in terms of  
35 their own skin. It seems to me that BVU is 40 million dollars, and Scott County put in a  
36 sizable investment here of late. When you see not only public funding, but the leverage  
37 of the private sector and incumbent providers in terms of the quality of service and  
38 reduction in price. So I don't know that it would really be accurate to say that one  
39 hundred percent of the last mile is attributable to the Tobacco Commission. That's a  
40 pretty long question, and I'm interested in perhaps your comment and see if it overlaps in  
41 other question.

42 MR. PESCE: I think you're overlapping the question I  
43 have. Syntrex is not privy to all that information that you said. Our concern was that the  
44 Tobacco Commission may not be in a position to fund the last mile for both Southside

1 and Southwest. The numbers I quoted, as I was asked, are the low end. The high end  
2 would be 120 million for Southwest and a hundred million for Southside. So that's 220  
3 million. I'll be glad to go through the numbers, and I can put the slide up. So what you  
4 just mentioned is a positive.

5 SENATOR WAMPLER: The point I was trying to make is  
6 that not one entity alone can achieve the last mile application in that it has to be a  
7 leverage and a combination. If one region relies solely on Tobacco Commission funding  
8 you won't provide the incentive not only for the last mile but service at a reasonable  
9 price. That's what I'm trying to tell my colleagues on the Committee, and that's what we  
10 are experiencing at this point because of the private and other dollars.

11 DELEGATE HOGAN: Any other questions?

12 DELEGATE WRIGHT: Is the last mile hookup continuing  
13 in Southwest at this point, or has that proposal been dropped? I read here it cost 1800 per  
14 residence or business to connect. It's on Page 6.

15 MR. PESCE: That's the average cost.

16 DELEGATE WRIGHT: Is that continuing, or Mr  
17 Chairman said some proposals had been scaled back, or  
18 what?

19 DELEGATE HOGAN: I think the biggest chunk of that is  
20 Scott County.

21 DELEGATE WRIGHT: My point is that it looks like we're  
22 not even close on Southside. Southwest, to hook up the individual residence you said  
23 was 1800, and Southside, we haven't even decided how we're going to do the last mile.

24 DELEGATE HOGAN: I think you're exactly right, a fair  
25 description of where we are.

26 DELEGATE WRIGHT: That being the case I voted against  
27 the 50/50 split. I asked at the last meeting, the split 50/50, and I think we're progressing.  
28 We're giving 50/50 in money, but not near the same rate.

29 MR. OWENS: I think in the Southwest you have an entity  
30 that has put up some money of their own. Is that 1800 dollars the cost for --

31 MR. PESCE: -- No, the 1800 that everybody is talking  
32 about is an average cost of connecting the last mile, whether that's other funding or  
33 Tobacco Commission funding, a combination.

34 MR. OWENS: How much is the actual cost to the  
35 Commission? I thought the goal was to get it to the businesses, correct, or the industrial  
36 parks?

37 DELEGATE HOGAN: Yes. When we laid out what we  
38 were trying to accomplish we said we were going to wire these industrial parks and see  
39 what happens from there. Southwest probably, or at this stage, is probably four or five  
40 years ahead because of people like Bristol Utilities and other people. I remember Ron  
41 saying we were already doing this, I think that's a fair description. I don't know how you  
42 can compare. I think you said they're, they've gone a certain route, and we've gone  
43 another route. I don't know that there is any one good answer, but I know they are seeing  
44 some geographical problems that may not be appropriate for us in Southside. If that

1 allows us to do some things less expensive, that's one thing. At some point I'd like to  
2 hear from Tad Deriso from MBC about the last mile and other pieces that we need to put  
3 into place. If we sit here and compare what they're doing in Southwest based on probably  
4 what was started seven or eight years ago and where we are now, I'm not sure what we  
5 would gain from that analysis, and then, we're doing it differently.

6 Well, I've ask several other people, and apparently some people haven't  
7 gotten this complete presentation. To the extent that folks want to hear what Mr. Pesce  
8 has to say, we'll run through it, because I don't want to deny people the privilege of  
9 hearing from him, but I thought if everybody had already seen it, then we might save a  
10 few minutes. If folks haven't seen it, then we'll spend a few minutes looking at it. So,  
11 why don't you go ahead and run through your presentation?

12 MR. PESCE: We were asked to review 13 grant requests,  
13 one of them for a Southwest Virginia Education Training Center, and the remainder are  
14 network related. The Tobacco Commission directed us to analyze eight criteria that you  
15 see listed there, and we did. You'll notice we have a couple of qualifications which I can  
16 discuss as we go along. The green means, as far as we're concerned from the objectives  
17 we've been told, basically funded. Of course, we didn't get into how much, just looked at  
18 them, and, yes, they're being funded.

19 The first one, the geodesic mesh, we already talked about that one. We  
20 believe those 12 requests do meet the basic geodesic mesh.

21 Number two, national/global interconnections. Each local carrier have a  
22 tier one connection, and either one, from what we understand, can handle a full load. If  
23 one goes the other one can handle it. The issue there, as we mentioned earlier, is that  
24 they should have an interconnected logically engineered backup each other.

25 The next one, the access point, and one of the requirements was to make  
26 sure that the point of presence have sufficient room and are capable to function with  
27 competitors and local carriers or providers. The answer is yes. As a matter of fact, they  
28 are capable. The only one I know right now doing it is Bristol Virginia Utilities.

29 Technology selection. We already went through the issue. Southwest is  
30 going through a triple-header. Technology is fiber to the home, fiber to the premises, it's  
31 a good long-term decision. The qualification is the last mile, which we discussed earlier,  
32 and the cost of the last mile.

33 Resources, one project which is Southwest Education Training Center,  
34 upgrade equipment, 54 of the locations or the Education Center classroom. They are  
35 upgrading their network, and we don't see a problem with that.

36 Capital costs reasonableness. All of the costs we thought were in the  
37 ballpark. Some of them are a little out. Since we can't dig down deep enough, we  
38 thought they were a go. The one issue is even though the last mile costs is appropriate,  
39 the issue is the volume and how much. Senator Wampler, I agree with what you said, the  
40 consortium is up.

41 Operations and support, is it adequate? We believe all three of the service  
42 providers, they have a fundamental back office systems more capable of maintaining the  
43 organization for the network.



1 Risk assessment, we think it's very low. We believe the money provided  
2 to Southwest in each of these grants, they're going to get the network up in time, be able  
3 to support and maintain them in the long run.

4 Next slide. This we already discussed, this is the Virginia Tech  
5 information. That gives you the network. That is also the regional network. This I just  
6 put up to explain, this would explain the last mile. This is a combination of what is  
7 occurring and what is normally done. We have the backbone network, and we have  
8 feeders out to or away from the main backbone to the communities. Then we have  
9 distribution, and then we have the last mile. The last mile consists of, this is a hundred  
10 feet to a mile, the electronics to the house, that's what we call the last mile. The average  
11 cost for that was 1800.

12 The next one, this is Southwest last mile projection. Looking at the  
13 federal government, there are 220 thousand owner-occupied in Southwest Virginia and  
14 we're assuming 50 percent will be passed. It will come down to 110 thousand. Thirty  
15 percent of those premises purchase service. We will multiply that by 1,250. Where did  
16 the 1,250 come from? The 1,250 comes from, we believe that in the next few years that  
17 price per mile will drop, so we're going to use the lower rate. We don't think it will go  
18 much lower than this for the next five years. That came up with a 42 or 41 point  
19 something, and we rounded it at 42.

20 The consideration here is will the Tobacco Commission fund it. If yes,  
21 only business, only residence, there are different options. I would agree with Senator  
22 Wampler and Chairman Hogan. Southwest is ahead of the game, and you have to  
23 consider that.

24 The next part of it, Southwest service provider should develop a last mile  
25 deployment funding plan. We're suggesting that funding come in in steps. You need to  
26 have a strategy for who we're going to do first. Do we do all businesses and then  
27 residence, and what are we going to do when the money runs out? We need a strategy so  
28 you know where you're going and with what money; otherwise, there could be a problem.

29 MR. OWEN: Do you have an estimate of how many of  
30 those 110 thousand or 33 thousand or whatever the number is, are already being served  
31 by cable or DSL?

32 MR. PESCE: I don't know that.

33 MR. OWEN: Is there cable and DSL in Southside Virginia,  
34 I mean Southwest Virginia?

35 MR. PESCE: There is cable service, yes. I think there is  
36 some DSL with Sprint, maybe it's with Verizon.

37 Any other questions? Earlier we talked about the cooperative efforts and  
38 strategies. We are suggesting, and I know it is not easy to do, and we want to work  
39 together. If the three companies could work together and negotiate a common contract  
40 together, I think they could do some pricing of the electronics, even if it's different. I  
41 think they could reduce the costs of backbone cable and feeder cable and the last mile  
42 cable. We already know some of these companies are way ahead of the others, and that's  
43 a result of a lot of savings. You can use the state for purchasing resources. One local  
44 provider provides the core. For example, one does telephone, Scott County, and if they

1 can do it for one they can do it for all, and that's an example. You have the three head in,  
2 and you could cut it down to one or two, and that's less money to maintain as well as  
3 installation, of course, they're there already.

4 The last piece, and because it might be difficult for service providers to  
5 work together, it might be possible to develop a consortium, three control the consortium,  
6 does all of the back office and does all the contract, and then the front company, the  
7 service companies would be the facing companies, and I think there could be some  
8 significant savings opportunities for improved service.

9 There is one other thing, and I think it has already been taken care of. We  
10 identified some duplication between some of the grant requests. One was Rural Retreat,  
11 with both Citizens and Bristol Utilities putting a network between those points. There are  
12 also two possible issues with MBC, duplication there as well. I don't know the name of  
13 the locations, but there are two routes out of MBC, look like Citizens covering a lot or  
14 part of it.

15 In summary, we think it is a go overall. Any questions?

16 DELEGATE WRIGHT: Number 2 still kind of concerns  
17 me. I didn't receive an answer as to how to solve the problem. If one section goes out  
18 you lose the ability to communicate.

19 MR. PESCE: The way it stands right now the local  
20 network, those networks back up themselves. If they have an outage they back up  
21 themselves, if they have a major, and I'm not really sure of your question.

22 DELEGATE WRIGHT: The question is how do you fix it,  
23 and I don't know if I understand the answer how you fix that.

24 MR. PESCE: These networks are co-located at certain  
25 points, and they can interconnect themselves with routes. The routers will know in which  
26 direction, and that's why the three companies will work on -- they'll be given directions,  
27 the routers, and that's why the three companies, four companies, have to work together.  
28 They have to get their engineers in a room together, and these interconnections cost  
29 nothing. The real work here is you have to sit down and say, okay, what happens in this  
30 situation where this goes out. One will say I'll take 50 percent of their traffic, or you take  
31 a hundred percent. They all set up emergency routes, and that would automatically occur  
32 through their network. Does that make any sense?

33 DELEGATE WRIGHT: It's getting better, and that's one  
34 thing I think we need to talk about. I don't know if the report shows what steps we have  
35 to take. That's a very important thing. If that problem can be solved, it makes everyone  
36 feel better.

37 MR. PESCE: We talked to some service providers, and  
38 they would like to see that happen. The network is all there and ready to go. All they  
39 have to do is sit down together and get their engineers in a room, and they have to make a  
40 plan, and that can happen. I don't think it would take that much engineering time to do.  
41 The issue is getting everyone to work together, and that's a big part of it.

42 DELEGATE HOGAN: Are there any further questions at  
43 this point? All right. Thank you, sir.

1 DELEGATE WRIGHT: What is the plan for Southside as  
2 far as the last mile? You said wireless had some problems.

3 DELEGATE HOGAN: Wireless had some problems if  
4 you're trying to run the triple process. For broadband, wireless, I think most people  
5 would agree that a significant portion of our last mile solution could be wireless. But  
6 they're trying telephone --

7 MR. OWEN: -- Mr. Chairman, I've got a suggestion. If  
8 Tad is going to talk about MBC, talk about the challenges, before we talk here about  
9 specifics for Southwest I think it would be informative and educational for us as a  
10 Committee to hear what he has to say about this challenge and the challenges of the  
11 backbone, as well as the last mile issue.

12 DELEGATE HOGAN: All right.

13 MR. DERISO: My name is Tad Deriso, and I am the  
14 General Manager for Mid-Atlantic Broadband Cooperative. I'll just go through a very  
15 short presentation on our activities and how these came about. Very recently, Monday of  
16 this week, we completed a draft business plan, and we presented it to our Board of  
17 Directors, about the future direction of MBC's operational guidelines and construction  
18 details and schedules and all those things. I won't go through all the details, but these are  
19 basically the areas that we have addressed in our plan as far as operationalizing MBC and  
20 making us a viable non-profit entity as we deploy regional backbone initiatives in  
21 Southside.

22 All of the things we do are impacting economic development and job  
23 creation, which is what we're all about. We're providing leadership and technology  
24 infrastructure to help the economic revitalization of Southside. I keep trying to get Jim  
25 Kelly to come to Southside. When we talk about Southside and Southwest and a  
26 comparison between the two, the major difference between Southwest is that BVU is a  
27 company that had a lot of connectivity in the region, obviously, but doing that voice,  
28 video and all that connectivity to the local communities and businesses and the residents.

29 Southside does not have an entity like BVU that we can leverage to deploy  
30 this type of infrastructure. With 20 counties and 600 thousand people and about 13,000  
31 different businesses, it's just a geographic challenge that we have. What MBC has done  
32 over the last six to eight months is met with every one of the counties, all of the economic  
33 development people, county administrators and local planning districts in developing our  
34 plan as we go forward as to how we can solve some of our major economic development  
35 problems that are attributed to broadband.

36 One of the key things that came out of our planning process is that MBC  
37 wants to carry our business in a way that is financially successful, we don't depend on  
38 grants alone to survive.

39 Thirdly, our cooperative reinvests in the communities that we serve, and  
40 we feel that is important in representing the entire Southside region. Revenues and  
41 profits that come into MBC are redirected into the communities for various projects,  
42 managing our business in a way that inspires confidence.

43 Real quickly, our mission is to help provide economic development in  
44 communities that we serve by providing wholesale telecom transfer services and trying to

1 aggressively expand the reach of these services to lower the costs, et cetera, et cetera, et  
2 cetera. What we are really doing is partnering with our local ISP's, Internet service  
3 providers, local exchange carriers, cable companies, telephone companies, broadband  
4 providers, wireless providers. There are about 200 companies we're talking to right now  
5 to help address some of the last mile and also help address serving broadband within our  
6 business plan.

7 I've got two slides very quickly about our project management efforts and  
8 our lifestyle. In any project we have, we have some very effective project management  
9 techniques where we start off on a project and doing a lot of planning. As the project  
10 moves along and construction increases we have more resources to do that, and when  
11 construction processes wind down our cost and staffing for that decreases, obviously.

12 This is our project management process, and you all may have heard of  
13 this as a perk chart report. This is a process we call everything we do, initiate the project,  
14 planning it, executing the project, doing control back and forth, monitoring our vendors  
15 and contractors, and closing out the project and making sure everything is done according  
16 to plan. One of the most important things that came out of our planning process was how  
17 do we communicate the success of MBC and not just to members of the stake holders and  
18 the Tobacco Commission and local communities, but how do we really know if we made  
19 an impact. You may have heard of the balance score card concept before, taking our  
20 vision, our mission, our strategies, and aligning those with the different objectives and  
21 measures for our designated area. We talked about financial and making sure that our  
22 revenues are matching expenses that were on track to maintain profitability. Internal  
23 processes, and that includes provisioning, up-time, upkeep, maintenance of the network,  
24 and things of that nature. Our customers are local Internet service providers, cable  
25 companies, local telephone company and other telephone cooperatives.

26 Our most important measure is jobs in the community. As you know, part  
27 of our project is funded by the Economic Development Administration, and we have  
28 some very, very lofty job creation goals over the next three years that MBC is going to be  
29 solely responsible for, not solely responsible but as we work with our local communities.  
30 We try to track those types of objectives.

31 Current plan, and I want to bring you up to speed real quick on our  
32 network. This shows where we've funded so far. The yellow that is highlighted, that has  
33 been completed, and that's construction that has been completed. About 22 percent of our  
34 entire network is either buried along VDOT right-of-ways or on poles. The northern  
35 route, which encompasses Rocky Mount all the way up and down through South Hill,  
36 will be completed by December of 2005. The southern route has just been awarded, and  
37 that's part of our project, Emporia and Keysville. That's actually Patrick to Emporia, and,  
38 as I say, a little to Keysville, and the one to Rocky Mount. Construction will start the  
39 first part of September. We have a firm commitment in place to complete all that fiber by  
40 May, 2006. If you came in on 460 today you may have seen some of the crews there.

41 This is Route 15, and it shows where fiber actually goes into the ground.  
42 You can see how close we are to the edge of the pavement. This is a little video that we  
43 just got this morning. We had Jim Kelly and some of the people at Cumberland Plateau,

1 and we've got some construction going on there, you can see it. That shows cable  
2 actually going into the ground.

3 How many people are here from Farmville today? Farmville has  
4 experienced all telephone service and all Internet service gone yesterday afternoon. What  
5 happened on Route 460 is our contractor cut a major Sprint cable that feeds Farmville.  
6 Right here is where the cut happened. It knocked out Farmville, Altavista, Burkeville,  
7 and a couple of other sites. The reason I'm sharing this very sad story with you is that's a  
8 major problem here in Southside. That's redundancy in the networks and the ability for  
9 these communities. In 2005 when fiber cable serves the town of Farmville, and that's  
10 unheard of. What we're going to do with our project and this will be a great opportunity  
11 and make inroads by doing it, an open access, we're open access. All we want to do is  
12 make sure our communities have redundancy and the fiber network, when you turn that  
13 over in an economic development perspective, that's what the local economic developers  
14 have to have in order to attract industry and create jobs and development.

15 This is another picture of the cable.

16 The budget update, very quickly. We just awarded our main contractor,  
17 and they're doing our entire project, and that's 12 million dollars and this is the part that  
18 was funded by federal funds, about 6 million. As of right now we're under budget by  
19 about 500 thousand, and I hope we can exceed that in a positive way here in the next of  
20 couple of months. We're looking forward to construction being completed in the second  
21 quarter of 2006.

22 The northern route, this is the 15 million dollar project that the Tobacco  
23 Commission awarded MBC about a year and a half ago. Adeste, Nortel Electronics is a  
24 major player here. The 3.6 we're talking about is the difference that has been awarded  
25 today and what's been budgeted for the 15.1 million.

26 DELEGATE HOGAN: I think at the last meeting we voted  
27 to transfer funds to cover that gap of the balances.

28 MR. STEPHENSON: The gap between 12 and 15 million?  
29 That's on the table for a decision today.

30 DELEGATE HOGAN: I thought we already funded that at  
31 a full meeting two meetings ago. What we're doing is replacing that with these dollars.

32 MR. STEPHENSON: You approved the grant itself but  
33 only partially funded it. Today we're asking that you finish funding that grant that you  
34 approved one year ago in July. That item is on your sheet to finish that up. It's the same  
35 grant.

36 MR. DERISO: We expect construction to be complete this  
37 year and be fully operational in the second quarter of 2006.

38 Financial update. The Virginia Department of Transportation, \$50,000.00  
39 for access on the fiber network. What we're doing is we're doing it much cheaper than  
40 what they can do for themselves. They will employ their highway transportation system  
41 part of this initiative we have with VDOT and MBC. We're negotiating a master service  
42 agreement with six local ISP's and CLEC providers around industrial parks and within  
43 our communities.

1 SENATOR WAMPLER: Can you tell us a little bit more  
2 about the financial agreement?

3 MR. DERISO: One company in particular in South  
4 Boston, they're a CLEC, and they need a facility to get to the end user. By incorporating  
5 a master service agreement with MBC we're telling them that they will interconnect  
6 anywhere on the network, anywhere within the 700-mile footprint. They'll be able to  
7 deliver broadband services on the network to those places, and they will be businesses  
8 and hospitals and communities, the community colleges, and not MBC.

9 SENATOR WAMPLER: Without stepping on the  
10 presentation too much I would say that is important provision of Southside, and that  
11 completes your model right there. When people can connect to and deliver and not just  
12 the incumbents that are already providing but this gives another pathway. You have a  
13 mishap at a critical intersection, will continue to have bits of the data and having the  
14 multiple pathways and redundancies will be critical.

15 DELEGATE HOGAN: Is it fair to say that is our last mile  
16 solution?

17 MR. DERISO: That is probably the most critical  
18 absolutely last mile solution MBC can have. MBC is not a last mile provider, we're not  
19 providing retail services to businesses and homes. We're getting people into the ISP.  
20 We're getting people into the industrial parks, and they can't do that. We give them a  
21 straight pathway, and it's cheap and easy. Their local ISP's and local people, they'll get to  
22 the end use customer.

23 DELEGATE WRIGHT: How about the individual  
24 homes?

25 MR. DERISO: No, sir. MBC does not build to the  
26 individual residences. If a provider in a community and they have fiber into their  
27 facilities or in the residences we'd use the MBC backbone to get there.

28 Let me go into our next step, building the network, the Phase 2 funding  
29 request. We have not submitted this application, but we're prepared to in the next two or  
30 three weeks. This will give you a little summation of what we plan to do. We're talking  
31 to these folks in Roanoke about providing us 12 by 16 shelters, and that's the ASAP  
32 location. We're working with a partner to leverage some private funding to get us a direct  
33 fiber connection into Northern Virginia. That's a major carrier, and that includes 190  
34 carriers.

35 Backbone extensions, we have a plan to go into Amelia and to an  
36 extension into Campbell County to serve industrial parks which are not part of this  
37 project when we funded a year and a half ago, Amelia County was rapidly expanding  
38 their industrial base, and we have plans to connect their facilities to the backbone. Also,  
39 the wireless, and that's on the next slide.

40 In the Southside region what we did is we located, we have a database of  
41 every single cellular wireless communication tower in our 20 county area. There are  
42 about 500 towers in this region. A combination of towers, there are also companies that  
43 have open access towers, companies like Crown Castle and American Power and others

1 who build the towers and lease space to wireless providers. I have highlighted a network  
2 on top of that.

3 We have all of this GIS in there. You can see this on the graph  
4 as we go along and the owners of the towers in the various places. We have Crown  
5 Castle. What we feel is the most important last mile strategy for Southside is to  
6 encourage the employment of wireless broadband to serve the customers we have. What  
7 we will have in our industrial parks in each county is, and we want to provide any kind of  
8 capacity to any company that locates in the park. We want to serve the small businesses,  
9 serve the residents. That's not our main focus, but it is part of our mission, leadership to  
10 the region, and as far as the communities are concerned we feel this is probably the most  
11 appropriate use of the funds we can do.

12 On all these routes MBC will build a spur into the communication towers  
13 and be able to provide T1 and T3, whatever is needed on these towers. That will allow  
14 not only local cellular and cable companies to expand their reach, but also the wireless.  
15 We want to get all these connected today. If I'm in South Boston, and I want to get in  
16 touch with somebody here, that's what we're trying to eliminate. If we can eliminate the  
17 cost overhead. You want to tell the companies you've got the same cost to South Boston  
18 or same cost to Mecklenburg, Amelia, Sussex or wherever. If we can do that we feel that  
19 will encourage competition and investment in the local ISP's. Hopefully, those like  
20 Verizon, Sprint, Alltel, will be utilizing this network in order to expand their coverage in  
21 the territory.

22 I'll be glad to entertain some questions.

23 DELEGATE WRIGHT: What is the projected cost of  
24 getting the last mile to the homes?

25 MR. DERISO: Are you asking wireless or fiber?

26 DELEGATE WRIGHT: I'm not talking about  
27 options so much, but the cost.

28 MR. DERISO: My estimation in the 20-county region, I  
29 would be surprised if an entity like MBC could do fiber to the home for less than several  
30 hundred million dollars. I'd be surprised if we could do it for less than 500 million  
31 dollars, because it is so geographically spread out and because it is so dense, and we don't  
32 have an operator for all those people. Wireless, I don't know if I want to go out on a limb  
33 and put a number on it, but for less than 10 million dollars you can incorporate most of  
34 the towers on these routes and in some cases build new towers where there are none  
35 today and help deploy that last mile access. From the residents perspective they're  
36 looking at broadband, and I think cable TV is probably pretty well set up here in  
37 Southside. Telephone service, I think everybody has that. We're focusing primarily on  
38 broadband. The comments I get in community meetings and from other leaders, how do  
39 we get the broadband, and when is the broadband coming. I see the fiber cable, when can  
40 I tap into it. Those are the types of questions. We'd love to do that for them, but that's  
41 not our main mission.

42 DELEGATE WRIGHT: You're saying fiber will go to the  
43 schools, hospitals, industrial parks, but the last mile, as far as to the homes, would have to  
44 be some sort of wireless?

1 MR. DERISO: That's correct. In my opinion, and I've  
2 been in this business 15 years working primarily in rural areas, unless you are a Scott  
3 County Telephone Co-Op or a BVU or a Citizens Telephone Co-Op, where you have  
4 customers and lots of facilities, that makes sense. What Scott County is doing and  
5 Citizens, is fiber to the curb, and that's a great strategy, because they have the systems  
6 able to do that. Southside is completely different. There is no entity that we can drive, or  
7 somebody like those telephone co-ops, that can help us do that.

8 DELEGATE WRIGHT: What's the projected cost from the  
9 end of May, 2006 to the point where the backbone will be completed? I think you said all  
10 these others will be completed by May of 2006?

11 MR. DERISO: Yes.

12 DELEGATE WRIGHT: The money has been appropriated  
13 to cover that?

14 MR. DERISO: Yes.

15 DELEGATE WRIGHT: What's the projected cost to do  
16 these others, the Phase 2?

17 MR. DERISO: The Phase 2 Project, we've looked at a  
18 potential 10 to 12 million dollar capital budget to allow us to do that. Don't hold me  
19 exactly to those numbers until we get our plan together.

20 DELEGATE WRIGHT: You're assuming the ISP's and the  
21 CLEC's will pick up the costs in providing services to the hospitals and things of that  
22 nature?

23 MR. DERISO: Let me clarify something I said earlier.  
24 We're going to be connected, I'm pretty sure, in most hospitals in Southside. The schools,  
25 K through 12, in some places where the fiber comes through we would have an access  
26 point for that school, but we do not have any physical connection to K through 12  
27 schools, because that was not our main mission when the Commission funded it. It was  
28 primarily industrial parks and economic development, hospitals, healthcare, community  
29 colleges and higher education centers and such as Longwood for workforce training and  
30 things like that. We feel wireless is huge. For us the local ISP's would be a participant in  
31 that.

32 MR. OWEN: If I am a customer in the industrial park and I  
33 need something higher than a T1 line, and there's a certain cost from Verizon or Sprint to  
34 get that. Would your presence there bring their cost down because they can hook in?

35 MR. DERISO: It better. They'd be crazy if they wouldn't,  
36 because what our infrastructure represents, and our costing model is, it's based on costs.  
37 We do not have 30 million or 27 million to repatriate as far as capital. We're able to bring  
38 services in, and let me give you a real quick aside. A telephone cooperative down in the  
39 southern end of our project was looking to get a DS3, which is a 45-megawatt  
40 connection, to the Internet to serve their DSL customers they were deploying in their  
41 service area. The initial quote they got back was 12,000 a month for that service. Only  
42 game in town, and only one provider can do that. The general manager of that telephone  
43 cooperative went back to the sales agent, we're working with MBC and instead of this  
44 three-year contract, please give us a one-year contract so by the time the network comes



1 through we can buy services from MBC and get our Internet cheaper. Within two weeks  
2 of that call they got a new proposal, and the new monthly cost was 4,000 per month.  
3 Nothing changed, no more competitors. The fact that MBC is coming saved that  
4 company \$8,000 a month, and that's huge.

5 MR. OWEN: How does the telephone cooperative  
6 physically connect to you?

7 MR. DERISO: They physically connect to us, when our  
8 fiber goes down Route 58 there is a central co-location point, and we simply tie our fibers  
9 together, and they're able to interconnect that way. We have a deal with Citizens  
10 Telephone Cooperative to get interconnected with the Citizens network in Stuart and  
11 another one in Rocky Mount. Nick may have some wrong information there. There are  
12 no redundant links between MBC and Citizens. We end at Stuart and end at Rocky  
13 Mount. The Citizens project would get us from Rocky Mount and then from Stuart to a  
14 little town called Quadsville, which would then give us a redundant connection on our far  
15 western side.

16 Any other questions?

17 DELEGATE HOGAN: Any other questions? All right,  
18 Ned.

19 MR. STEPHENSON: I'm going to refer to the proposed  
20 Technology grants before you, and there should be 16 of them. I'm going to put this slide  
21 up. I apologize, I only have one slide. There are a few things that you need to know so  
22 you can understand what we need to go through.

23 Very quickly, I have distributed a spreadsheet, and you need to have in  
24 your hand the spreadsheet that has red ink on it, and if yours does not have red ink, it is  
25 not up-to-date. The spreadsheet shows Staff recommendations A and Staff  
26 recommendations B. Since the 4th of August when I published this I have collected  
27 recommendations C through Z from  
28 various of you who have ideas on how this should work. So, we've got to  
29 get those into a single formula.

30 I want to pause just a minute to go through the framework of what we're  
31 doing. Gentlemen, in the entire five-year life of the Commission we've spent 23 million  
32 dollars in fiber projects over 5 years. We have more than that on the table in a single day  
33 today, if that gives you some order of the magnitude of what we face here. When I go  
34 through this, and if anyone needs to stop me, please do so.

35 Very quickly, you have on the screen before you the same thing you have  
36 in your hand, only abbreviated so you can all keep up with the math. I put that there as a  
37 reference only. Quickly, Column A, which is the request, that is the dollar value that  
38 came to us from the applicant as the requested amount. Staff Recommendation A strips  
39 out all of those dollars that are ineligible due to bond counsel's opinion that they cannot  
40 be spent with securitized funds. Column A strips out the ineligible dollars, leaving  
41 everything else in. So, it takes the requests, as you can see, from 30 million dollars,  
42 dropping down to about 30 million.

43 Staff Recommendation B, this column strips out a great deal of fiber to the  
44 premises, and it was simply an attempt to get the total request down to 19.7 million for

1 Southwest. And being half of the pot, if you will, started out at approximately 40 million  
2 dollars, half of that being 20 and actually 19.7.

3 The last column here, and I want you to focus on that, because you haven't  
4 seen that until this moment. That is for the Committee to look at today. This came to me  
5 yesterday from some of the leadership in the Southwest region as to what their thoughts  
6 were about how this could go. I put that up really only as a proxy or a starting point from  
7 which you may want to depart or make changes. We will try to keep up with your  
8 changes, and you can watch the totals as we move along.

9 I need to make one or two changes to this, Mr. Chairman. I'm going to  
10 speak to these collectively, and at any point we can stop and take them one at a time and  
11 talk about them.

12 DELEGATE HOGAN: I'd ask you to speak to items 1  
13 through 12 as a block.

14 MR. STEPHENSON: This column here under the  
15 Committee column, I received yesterday, and I need to ask Sarah if you can make a  
16 couple of changes to that for the benefit of everyone.

17 Line Item Number 3, that is a request to lease fiber, and leases are  
18 ineligible under the bond proceeds, so I'll ask that you zero that one out. If there are any  
19 objections from anyone in the room, you can change that later, but I understand it is  
20 ineligible.

21 Likewise, Item Number 8, Sarah, if you would, that needs to be 2,000,068.  
22 Three hundred thirty thousand dollars in that request, and also thought to be ineligible for  
23 securitized proceeds.

24 Also, Item Number 11, which appears as a million 710 needs to be  
25 reduced to one million five. A piece of that is ineligible.

26 The one you have before you is a version that came from some of the  
27 leadership in Southwest Virginia. I'll call your attention to the fact that this particular  
28 request, Citizens block, the suggestion is that that one would be not funded at this time,  
29 and that is for you to decide today.

30 I have, at the request of the Chairman, I have eliminated those  
31 two requests Numbers 14 and 16, which are the set-aside requests. We're prepared to  
32 speak to them today, and they are applications, and we have them ready if you want to  
33 consider them, and we may separate that from this block.

34 DELEGATE HOGAN: Actually, Citizens Telephone  
35 Cooperative, I think, where is Tad? That's really a Southside request and not Southwest.

36 MR. DERISO: A little bit of both.

37 DELEGATE HOGAN: For what we're trying to  
38 accomplish right now it is where it ought to be.

39 SENATOR WAMPLER: I would say this is an important  
40 link, we're trying to get it in under budgeted dollars for a pure Southwest project, that's a  
41 mathematical exercise, so I would suggest that as a Commission, both Southside and  
42 Southwest, we need to do, but I'm not sure if we're ready to do that today. It has all kinds  
43 of merit, and I'll speak for myself, but I think Southwest supports that.

1 MR. STEPHENSON: I would like Tad to speak just for a  
2 moment on the value of this piece to the big picture.

3 MR. DERISO: Part of the Citizens Telephone request is  
4 linked from Stuart in Patrick County to Clarksville and Rocky Mount to Floyd County.  
5 Understanding the funding criteria, I would say from the Southside's perspective we can  
6 fund at least part of the Citizens project to get from Stuart to Clarksville, and the number  
7 one priority, and there's a company in Patrick County that has a hundred jobs, and they're  
8 looking to move to Charlotte because of broadband, and I have met with them several  
9 times, and they're willing to either stay there if they can get a link for Citizens to get into  
10 Stuart, and that's probably an additional 80 jobs.

11 DELEGATE HOGAN: What is the time frame on which  
12 we need to act on that?

13 MR. DERISO: I would say September the 1st.

14 DELEGATE HOGAN: If we can pick that up sometime  
15 within the next month where a Committee could consider all the different Southside  
16 proposals as far as what we want to do, would that interfere with the project?

17 MR. DERISO: I don't believe so.

18 DELEGATE HOGAN: I think Senator Wampler hit it right  
19 on the head about how important it is to make all this work together here. I certainly  
20 support it if we can fit in on that time schedule in terms of your project, unless there is an  
21 overbearing reason not to do that.

22 MR. DERISO: We can do that.

23 DELEGATE HOGAN: Let's see if we can all work  
24 together on that.

25 MR. STEPHENSON: There is a minor correction,  
26 gentlemen, with respect to Number 12 on your sheet, which appears also on the screen. It  
27 appears on your sheet as a Southside Virginia network, and it is in fact Southwest, and I  
28 want to make that distinction.

29 Mr. Chairman, real quickly, I'm going to run through this Southwest block  
30 so that if there are any questions we will have a chance to raise them. You can see that  
31 this particular, the first several grants were suggested from some Southwest leadership  
32 that they be funded in full, including the fiber lease, which we cannot fund. Most of  
33 these are Bristol Virginia Utilities, and they are under control. The Cumberland Plateau  
34 also is affected because of the securitized dollars. This three million-dollar match by  
35 EDA, the Staff feels it is very important to capture that match by funding that grant.

36 Scott County Telephone, the request started out at six million four, and it's  
37 been suggested that be reduced to three million three. There are folks here to speak to  
38 that today.

39 Lenowisco is reduced by about 200 thousand operating costs. This one is  
40 a Southwest Virginia network, I believe Bruce is here today, and this is to provide  
41 equipment and so forth for a network throughout Southwest Virginia.

42 The remaining ones are Southside, except for this particular one, and this  
43 is VECTEC, and that is an e-commerce incubator that will serve the Southside and  
44 Southwest Virginia. If you will note, the grant request is for 400 thousand, half of which

1 appears in the Southside line, and the other half appears in the total that you have for  
2 Southwest.

3 DELEGATE WRIGHT: Mr. Chairman, is this the proper  
4 time to hear from Amelia as well?

5 DELEGATE HOGAN: If we can, I'd rather take up these  
6 projects at a later time. I wanted to get this other business out of the way.

7 MR. THOMPSON: Mr. Chairman, I'd like to move the  
8 recommendations as proposed in the block be accepted by the Committee.

9 DELEGATE HOGAN: Is there a second?

10 SENATOR WAMPLER: Second.

11 DELEGATE HOGAN: Discussion?

12 MR. OWEN: I have several objections, and I'll try to keep  
13 them as a short list. I would object to the last mile connectivity being funded by the  
14 commitment of, viewed from Virginia Tech the concept that we provide the backbone and  
15 the builders will come, that the ISP's and CLEC's and Bristol Virginia Utilities and other  
16 people like that will connect to our backbone once we put it in place, that's where we  
17 ought to concentrate our investment. I think when we start subsidizing entities to include  
18 the last mile for small commercial and residential, it's bad public policy. I think it causes  
19 us to subsidize entities that otherwise would compete with private enterprise and cable  
20 companies and other CLEC's and ISP's and big telephone companies. It picks and  
21 chooses a few locations to subsidize without providing that benefit to the citizenry in a  
22 broader area. If this is just an initial step and it's going to be repeated, I think it will be at  
23 a tremendous cost. We've learned a range of estimates from 42 million to hundreds of  
24 millions of dollars. My personal belief is that it will be higher rather than lower.  
25 Certainly the cost to try to provide broadband to everybody some of whom already have  
26 it and some of whom do not. I don't think it's the Commission's prerogative to pick  
27 winners and losers in those last mile applications and to subsidize one entity versus the  
28 other providing a service, particularly when they'll use it commercially along with the  
29 telephone and cable service to build and to form a monopoly. Yes, it's nice  
30 to have this broadband so that any entrepreneur could develop a home business, and love  
31 to have that in every home, but we can't afford it. Once again, I don't think it is the  
32 mission of the Commission to go that far until we have an entire backbone laid, then see  
33 what if any further step that we want to take.

34 I would note that one of the Virginia Coalfield Coalition requests, EDA  
35 will not provide funds for the last mile, because they don't consider it an economic  
36 development activity, it's something else. I think it's good for education and good for the  
37 quality of life, but it is not economic development activity. If there are entities that need  
38 high capacity service for industries and commercial operations, I think this Committee  
39 ought to stand ready to subsidize the connectivity to those entities that provide jobs and  
40 services in our communities. I do not think that we ought to pick and choose entities to  
41 subsidize, particularly when there are other broadband opportunities, either potentially  
42 existing, or even in fact currently.

43 DELEGATE HOGAN: Are there further comments?

1 MR. ARTHUR: Mr. Chairman, I would agree with Mr.  
2 Owen.

3 DELEGATE WRIGHT: Mr. Chairman, what would the  
4 effect be of Mr. Owen's statement as far as the total request for Southwest? How would  
5 that affect this?

6 DELEGATE HOGAN: I think I can answer that. It would  
7 be hard, we could add it up, but I think maybe the other way to look at that would be to  
8 extend to some of these other entities like Bristol Utilities or other people that have  
9 invested significant dollars at this point, and I think that's an accurate statement. We  
10 could say we'll do the backbone, who wants to in this particular area do the last mile?  
11 You might find when you got through researching that you'd be very close to the same  
12 place where we are right now. I think it would be very difficult to sort out because of  
13 what's been done over the last six or seven years.

14 What has happened is that these entities in Southwest Virginia have gone  
15 out and borrowed money and done what they need to do and started doing this network.  
16 I'm sure they started with the backbone, and you'd just about have to. And they went  
17 along and worked on this thing for several years and then took steps to develop this  
18 network, and they started asking for grants. Some of what they're asking for is the last  
19 mile, and some of it is backbone, and it's very difficult to sort that out to that extent. I  
20 think we can make an argument not to try to be contentious of what Mr. Owen said. If  
21 we concede every point that he made we go back in there with the last mile, I'll bet you  
22 could look at these numbers and end up based on what they've already invested in this  
23 backbone. Is there somebody around here that maybe could speak to that?

24 MR. FLANNERY: I'm Ron Flannery, Director of  
25 Lenowisco. I'm very respectful of Mr. Owen's opinion and everyone else. I think it is a  
26 mistake the way we see it like we're not caught up in businesses versus homes. If we  
27 have 900 telephone service customers, and maybe they work out of their home. Home  
28 sources is the future look in the 21st century. We don't think all of the big employers will  
29 be in business in one particular place. We're looking at the 21st century. When we look  
30 at BVU and Lenowisco and Scott County Telephone Co-Op, we fully contemplate that  
31 we're going to need these expanded services. We're following the same model with this  
32 that we would follow with the water system. If you build a 12-inch water line through  
33 the rural area and didn't allow for service it wouldn't go along with our business plan.  
34 We're confident that our business plan will fall in line with our economic development  
35 plans. We're confident that all this is going to tie in. There is going to be a need to  
36 service these small entrepreneurs. There is a fundamental difference, and that's not to say  
37 the Committee's proposal is wrong, but we think what we're doing in Southwest makes a  
38 lot of sense for us.

39 MR. OWEN: I take it from what you say the vision is that  
40 every home will be wired so that the entrepreneur would be wired, and I agree that's a  
41 wonderful vision. I would also expect then that this request is just the first dip in the  
42 bucket for money to go towards that vision for your area or the Bristol area or the Scott  
43 County area. This is just the starting point in terms of money to wire the homes.

1 MR. FLANNERY: This is the last time we will be asking  
2 for fiber to the homes, Lenowisco, that is.

3 MR. OWENS: Do we anticipate any of these entities  
4 coming back for more money?

5 DELEGATE HOGAN: Let me just say that I don't think  
6 that we're going to be able to say none of these entities will make this request, will never  
7 come back for more money. I think what they have asked for is reasonable to go along  
8 with their own money and complete the bulk of this network. If they have problems with  
9 this plan, it's their plan, and the people that represent these entities and members on the  
10 Commission from Southwest and the gentlemen before us, if they have done a bad job  
11 utilizing resources. If they do, they'll have to suffer for it and answer for it. What I'm  
12 saying is that I think they have done to the best of their judgment what they think is best  
13 for them. Other than that, I don't know. We could talk about this thing forever, and I'm  
14 not sure we'd come to a much more finite conclusion than that.

15 MR. OWEN: In terms of Delegate Wright's question, is not  
16 your Staff recommendation B, for example under Number 1, is that reduction from four  
17 six to 3.20? Does that not attempt to take out the cost of the last mile?

18 MR. STEPHENSON: It does take out all of the last mile  
19 except for the Scott County Telephone Co-Op, Number 10. You have to pluck that out,  
20 and we did, and you have all last mile out. What Scott County requested is a hundred  
21 percent last mile, as I understand it.

22 SENATOR WAMPLER: I suspect most of the Committee  
23 members know how they're going to vote, and I respect the opinions of those that  
24 indicated their objections. I would like to cover a couple of points. I don't know if  
25 Southwest is right or if Southside is right or we're both right. I think what we're doing is  
26 just going in a different direction. I can only respond out of theory and practical  
27 application, there are businesses where they turn their machines on and the technology is  
28 working. We've found that we have driven down the price of our incumbent providers  
29 and we have improved the quality of service.

30 Five years ago we couldn't get a Fortune 100 company to come and look  
31 at our region because of the lack of redundancy. Now we find that Southwest Virginia is  
32 on the map in terms of consideration. Forget about what the experts say, in all due  
33 respect, and practitioners. We have businesses now that can log on and even small  
34 businesses that have increased savings by 200 percent because they're using the Web to  
35 sell their products, whether it's wireless or fiber to the premises. You've now got students  
36 in all counties in Southwest Virginia that log on to many different things, whether it's  
37 education or homes, and they take classes that they otherwise could not take at their high  
38 school. Now we find that they are perhaps a little more competitive when it comes to  
39 trying to get grants to major colleges and universities.

40 I think I feel the Committee struggling whether the last mile, if that's the  
41 only consideration, I'd say let us continue to proceed with what we're doing, and we  
42 showed you that it is working. I think as a result of all this we're in a better position to  
43 continue. I'd like to compare notes with what the Southside is doing with their wireless

1 technology, and perhaps you can share the best practices in the future and find how we  
2 can meet all these needs.

3 I would just renew the motion that we adopt Items 1 through 12 as a block,  
4 Mr. Chairman.

5 DELEGATE HOGAN: Any further comments?

6 DELEGATE WRIGHT: I'd just say before we vote, I do  
7 agree with some of the comments made pertaining to the last mile. I think the end is not  
8 in sight possibly because of the cost. My vote on this particular block is based on my  
9 disagreement with the appropriation of the funds. I agree with the 73/27 split, and now  
10 we're 50/50. I think Southwest has done an excellent job, but I happen to disagree on the  
11 last mile. I think there is a right and a wrong approach, and I just wanted to make that  
12 clear. That's what I will be basing my vote on.

13 DELEGATE HOGAN: Carthan, would you call the roll?

14 MR. CURRIN: Mr. Arthur?

15 MR. ARTHUR: Aye.

16 MR. CURRIN: Mr. Hite?

17 MR. HITE: Nay, no.

18 MR. CURRIN: Mr. Owen?

19 MR. OWEN: No.

20 MR. CURRIN: Mr. Owens?

21 MR. OWENS: Aye.

22 MR. CURRIN: Senator Wampler?

23 SENATOR WAMPLER: Aye.

24 MR. CURRIN: Delegate Wright?

25 DELEGATE WRIGHT: No.

26 MR. CURRIN: Delegate Byron?

27 DELEGATE BYRON: Aye.

28 MR. CURRIN: Mr. Thompson?

29 MR. THOMPSON: Aye.

30 MR. CURRIN: Mr. Chairman?

31 DELEGATE HOGAN: Aye.

32 MR. CURRIN: The motion carries.

33 DELEGATE HOGAN: It carries six to three.

34 MR. STEPHENSON: Mr. Chairman, you have before you  
35 today the two Southside items, and I'd like to clear the record. I misspoke earlier with  
36 respect to the MBC grant. In July a year ago you approved nine million dollars for a  
37 fifteen million dollar project. A couple of months ago you added two and a half million  
38 to the nine, making eleven and a half. Today what is before you is the 3.6 to take it from  
39 eleven and a half up to 15.1, being the original request last July. I'm asking your  
40 Committee if you'd like to --

41 DELEGATE HOGAN: -- Do we have a motion to that  
42 effect?

43 DELEGATE WRIGHT: I'll so move.

44 MR. ARTHUR: Where did the funds come from?

1 DELEGATE HOGAN: Out of this --  
2 MR. ARTHUR: -- Out of our 20 million?  
3 DELEGATE HOGAN: Yes.  
4 MR. OWEN: Second.  
5 DELEGATE HOGAN: All in favor say aye? (Ayes.)  
6 Opposed like sign? (No response.)  
7 DELEGATE WRIGHT: Mr. Chairman, I'd like to move  
8 adoption of Item 14 approved by the Staff.  
9 DELEGATE HOGAN: We'll do it in just a minute, because  
10 I think we want to hear from Amelia County and a couple of questions to ask, if we don't  
11 deal with that today we can do it in a couple of weeks. Can we go ahead and get this  
12 VECTEC, does everybody know what this is? Can we go ahead and get it out of the way  
13 before we take Amelia?  
14 SENATOR WAMPLER: I'll make a motion, both  
15 Southside and Southwest, we can split that amount equally.  
16 DELEGATE WRIGHT: I'll second the motion.  
17 DELEGATE HOGAN: All in favor say aye? (Ayes.)  
18 Opposed like sign? (No response.) That passes.  
19 Now, we've got about 16 or 17 million dollars to take up as part of the next  
20 phase of the MBC project. Certainly your project is part of that effort. One of the things  
21 we try very hard to do in Southside is not piecemeal this project. Is there any  
22 overwhelming and compelling reason why we can't take up your project when we take up  
23 the towers and these other lines and other pieces we need to do?  
24 UNIDENTIFIED: No, there is not. We realize this is a  
25 small project, but, no, there is not.  
26 DELEGATE HOGAN: If you could wait a few weeks we  
27 could work through this.  
28 UNIDENTIFIED: In Amelia County we went in, and MBC  
29 didn't include broadband in Amelia. We didn't have until late 2003 or within the past two  
30 years. We're just trying to keep up, and in talking with Tad we need this broadband  
31 service to our industrial parks. Finding employees first and foremost is going to be a goal  
32 for us. Because we're next to Chesterfield County we have so many companies trying to  
33 locate, and of course we have to have the latest technology. We would hope that some of  
34 these positions come from Amelia because it is a viable option.  
35 DELEGATE HOGAN: When is the next Full Commission  
36 meeting?  
37 MR. STEPHENSON: Other than tomorrow, our next  
38 meeting will be in October.  
39 DELEGATE HOGAN: If we can meet in the next three or  
40 four weeks, if we can do this maybe in October will that create a hardship?  
41 UNIDENTIFIED: No, we do need to provide jobs and  
42 training for the operation. We don't have any pending deadlines, but I just know if we  
43 don't get going we will be behind always.



1 DELEGATE HOGAN: All right, thank you, but we'll get  
2 to you.

3 MR. STEPHENSON: Mr. Chairman, I have in my  
4 possession bond counsel's preliminary opinion. There are a lot of if statements and  
5 conditions and requisites listed in this document. We believe that these grants that you  
6 approve today for expenditures under the securitized dollars can survive this process and  
7 ultimately be proper. I want to alert the Committee that we may in the future discuss  
8 some reason why they may not. We'll try our best to work with those entities making the  
9 necessary adjustments that require you to use that opinion.

10 DELEGATE HOGAN: Can that be handled  
11 administratively on a project-by-project basis?

12 MR. STEPHENSON: I would hope so.

13 DELEGATE HOGAN: Are there any further questions  
14 from the Committee with regard to that?

15 MR. CURRIN: Mr. Chairman, tomorrow Stephanie  
16 Hamlett will be giving a briefing to the whole Commission on the  
17 proceeds from the bonds as far as securitized and unsecuritized funds.

18 DELEGATE HOGAN: Anything else before the  
19 Committee?

20 SENATOR WAMPLER: Mr. Chairman, I don't feel good  
21 about turning the tables and not giving Citizens Telephone Cooperative and giving an  
22 education on what the Commission plans on doing, and that's a critical link for both  
23 regions, and I think everyone understands that. I'd say that if we meet again in October  
24 perhaps the, or --

25 DELEGATE HOGAN: -- My intention is to poll the  
26 Committee and get together probably just the Southside portion of this Committee and  
27 take up the next step with MBC well before our next Full Commission meeting. Part of  
28 that conversation will certainly include Citizens Telephone. To the extent that it impacts  
29 Southwest, I don't know whether or not Mr. Thompson wants to come or whoever else  
30 would like to come. We certainly will ask someone from Southwest to make sure that we  
31 deal with other pieces of how that might affect you as soon as possible and deal with that.  
32 Is that a fair way to deal with it? Any other business before the Committee? Would  
33 anyone else like to say anything, public comment? All right.

34 MR. THOMPSON: I move that we adjourn.

35  
36 PROCEEDINGS CONCLUDED.

37  
38  
39  
40 CERTIFICATE OF THE COURT REPORTER

41  
42  
43 I, Medford W. Howard, Registered Professional Reporter  
44 and Notary Public for the State of Virginia at large, do hereby certify that I was the court

1 reporter who took down and transcribed the proceedings of the **Virginia Tobacco**  
2 **Indemnification and Community Revitalization Commission Technology Committee**  
3 **Meeting when held on Wednesday, August 17, 2005 at 2:30 p.m. in the Lankford**  
4 **Ballroom, University of Longwood, Farmville, Virginia.**

5 I further certify this is a true and accurate transcript to the  
6 best of my ability to hear and understand the proceedings.

7 Given under my hand this 25th day of August, 2005.  
8  
9  
10

11  
12 \_\_\_\_\_  
13 Medford W. Howard  
14 Registered Professional Reporter  
15 Notary Public for the State of Virginia at Large  
16  
17

18 My Commission Expires: October 31, 2006.